



Directorate of
Intelligence

Secret

MASTER FILE COPY

25X1

Malaysia's Mahathir: The Man and His New Election Mandate

25X1

An Intelligence Memorandum

State Dept. review completed

Secret

EA 82-10053
April 1982

Copy

272

Page Denied



Directorate of
Intelligence

Secret

25X1

Malaysia's Mahathir The Man and His New Election Mandate

25X1

An Intelligence Memorandum

*Information available as of 23 April 1982
has been used in the preparation of this report.*

This memorandum was prepared by []
[] the Office
of East Asian Analysis. Comments and
queries are welcome and may be directed
to the Chief, Southeast Asia Division, OEA,
[]

25X1

25X1

25X1

This report has been coordinated with the
National Intelligence Council. []

25X1

Secret

EA 82-10053
April 1982

Secret
**Malaysia's Mahathir:
The Man and His
New Election Mandate**

25X1

Summary

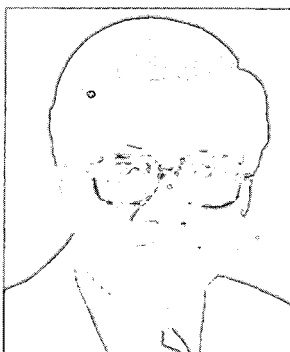
No one was surprised when the government of Prime Minister Mahathir won a resounding victory in the national election on 22 April. Mahathir will take the five-year mandate from the voters as an endorsement of the often controversial domestic and foreign policies that he has vigorously pursued since stepping in for his ailing predecessor last July.

With his own mandate, we expect Mahathir to become even more assertive in projecting Malaysian self-interest and thus to continue to inject irritants into the US relationship, particularly concerning commodity policies. His strong convictions will make him the most difficult ASEAN leader for Washington to deal with in the next few years. Mahathir, however, apparently wants to prevent disagreements such as the tin issue from spilling over into other aspects of bilateral relations—trade, foreign investment, and military equipment purchases. Mahathir appreciates the value to Malaysia of the US relationship, especially in the area of national security.

25X1

Secret

25X1



Mahathir bin Mohamad, 56, is a new breed of Malaysian leader in at least four ways:

- *A physician, he is the first Malaysian prime minister who is not a lawyer.*
- *Of mixed Malay-Bengali descent, he is the first prime minister of not fully Malay stock.*
- *He is the first prime minister who did not come from the local aristocracy.*
- *He is the first national leader not educated in the United Kingdom, receiving his medical degree in Singapore in 1953.*

25X6

He was elected to Parliament in 1964 but lost his seat in the 1969 elections. That year he was also expelled from UMNO for his controversial racial views and was not readmitted until 1972. In 1973 he was appointed to the Senate, and the next year he was voted back into his seat in the lower house of Parliament. He became an UMNO vice president in 1975 and Deputy Prime Minister in 1976.

Mahathir's wife is also a physician.

25X1

Secret

Secret

**Malaysia's Mahathir:
The Man and His
New Election Mandate**

25X1

The Election Setting

The national election on 22 April was called by Prime Minister Mahathir to secure an endorsement for his nine-month-old government. He has been anxious to win a five-year mandate on his own because he succeeded his ailing predecessor last July without election to office. Elections had been rumored since early this year, with April or August—school holidays when the facilities would be available as polling places—mentioned as the most likely months. Mahathir probably decided on the earlier option to limit the effect of voter dissatisfaction over the growing impact on Malaysia of adverse world economic conditions.

25X1

Since assuming office, Mahathir has made a strong and positive impression as a dynamic leader of an honest and efficient government. He has lived down his longstanding reputation as a Malay chauvinist and is generally regarded as responsive to the interests of all segments of Malaysia's multiracial population. Even opposition political leaders privately admit that they see the current administration as the best since independence in 1957.

25X1

Going into the election, the 11-party government coalition dominated by Mahathir's United Malays National Organization (UMNO) held 133 of the 154 seats in the lower house of Parliament. Although the government appeared the sure winner, incipient grumbling over depressed world prices for tin and rubber, plus infighting among coalition partners, posed a slight threat to maintenance of the government's heavy majority. Tin producers, mainly ethnic Chinese, include some of the coalition's more affluent supporters. Rubber smallholders are overwhelmingly Malay and thus are regarded by Mahathir as part of his constituency. According to press reports, UMNO officials privately anticipated the loss of a handful of seats. Projection of returns in to date, however, indicates that the government's margin of victory may be even larger than in the last election in 1978.

25X1

Mahathir politicked aggressively in the two-week campaign that got under way on 7 April. He scored a significant preelection coup by bringing into UMNO the most prominent and articulate Muslim opposition leader. In spite of his strong endorsement at the polls, Mahathir faces rough sledding as he grapples with Malaysia's deep-seated and complex communal problems and emerging economic difficulties, such as slowing economic growth, growing budget deficits, and a deteriorating balance of payments.

25X1

Secret**Mahathir the
Politician**

Mahathir's accession to the prime ministership caused some concern among non-Malays because of his reputation of being a Malay chauvinist. Malaysia's volatile racial mix—44 percent Malay, 36 percent Chinese, 10 percent Indian, and 10 percent indigenous tribes—permeates all aspects of national life. Although the government is dominated by Malays, an important goal of any Malaysian prime minister is maintenance of communal peace [redacted]

25X1

In the early 1970s Mahathir's abrasive promotion of preferential treatment for Malays disturbed even the dominant Malay political party, UMNO, and led to his suspension from the party for several years. A controversial book by Mahathir that argued for Malay privileges was banned in Malaysia for over a decade because it was considered racially inflammatory. [redacted]

25X1

Mahathir mellowed after 1976 during his five years as Deputy Prime Minister and Minister of Trade and Industry, when he proved to be a practical politician who accepted that he must work with non-Malays. Most Chinese felt that he acted impartially in carrying out his cabinet duties, which brought him into daily contact with the Chinese-dominated business community. Indeed Mahathir, like many Malays, had Chinese business partners, and he and his principal Chinese colleague lived in identical houses on adjacent lots. Still, memories of Mahathir's chauvinistic past were revived as he moved toward becoming national leader. [redacted]

25X1

**Mahathir the Prime
Minister**

Although he remains a strong advocate of giving ethnic Malays a 30-percent share of the largely Chinese-controlled economy by 1990,¹ Mahathir has privately convinced the Chinese and Indian minorities of his determination to protect their interests. In fact, Mahathir probably has disappointed his Malay constituency somewhat by serving notice on them that they must better their economic lot by hard work [redacted]

25X6

¹ The government's goal of giving Malays economic parity is embodied in the New Economic Plan announced in 1970 after serious racial rioting in 1969. Although ostensibly targeted against poverty in all ethnic groups, the fundamental objective of the plan is to put 30 percent of Malaysia's corporate wealth into Malay hands by 1990. In 1971 they owned only 4.3 percent; this share increased to 12.4 percent by 1980, a considerable part held via government trusts. The redistribution is intended to be achieved by giving Malays their share of a larger economy and not by reducing the absolute level of holdings that the Chinese and foreign economic interests already have. [redacted]

25X6

25X1

Secret

Secret

A reading of Mahathir's controversial book—The Malay Dilemma—makes it clear why, in the charged atmosphere following the 1969 race riots, the book was banned soon after its publication in 1970. Some comments in the book are offensive to Malays, particularly the inference that for historic and genetic reasons Malays do not measure up to other races, such as the aggressive Chinese. In his book, Mahathir argued for a program of economic and social advancement for the Malays and said the government at the time was not doing enough and moving fast enough. Mahathir's idea of affirmative action for the Malays has since been incorporated into the government's New Economic Plan.

Some of the controversial passages are as follows:

- *The Malays are truly the definitive people of the Malay Peninsula, the real and original rulers and owners of Malaya. No other race has any grounds to dispute this.*
- *The Malays are the rightful owners of Malaya, and if citizenship is conferred on races other than the Malays, it is because the Malays consent to this. That consent is conditional.*
- *In Malaya, there can be no denying that the status of the Malays differs from that of the non-Malays. . . . Malays are accepted as the indigenous people of the country, but the country is no longer exclusively theirs. However, in order to protect and preserve their status, certain laws are necessary.*
- *The motive behind preferential treatment is not to put the Malays in a superior position but to bring them up to the level of the non-Malays.*
- *Malaya has far too many non-Malay citizens who can swamp the Malays the moment protection is removed.*
- *What is merely good manners to the Malays is wrongly interpreted by non-Malays. The British consider the deference and the constant giving way on the part of the Malays as evidence of weakness and inferiority. . . . The Chinese and Indians are less concerned about good behavior and manners.*
- *In this matter of national language the rights of new citizens are limited. It occurs to no one to demand that the language of the new immigrants should be the medium of instruction. . . . the education policy must be that of the definitive people. This basic principle has been ignored in Malaya. The British are responsible.*

25X1

Secret

Secret

Mahathir's conduct as Prime Minister seems to have eased most of the fears of non-Malays. He defused a developing communal controversy early this year over what the Chinese and Indian communities saw as a government threat to impose instruction in Malay on ethnically distinct district primary schools, which are the last bastion of teaching in minority tongues. Mahathir assured the Chinese and Indians that primary school instruction could continue in their languages and blamed overzealous bureaucrats for any indications to the contrary. He stood firm, however, on a revised curriculum with a more ethnic Malay cast. Mahathir also seems to have allayed the concerns of Malays and non-Malays over his attitude toward civil liberties. He promised to relax the enforcement of measures enacted just before he took office that increased the government's already formidable powers to control public discussion of political issues. [REDACTED]

25X1

Mahathir moved forcefully in other areas of government in his first nine months. He gave his ministers one year to achieve results in improving the efficiency of the bureaucracy, ordered a complete review of the country's tariff system, and created a national marketing system for Malaysian exports modeled after Japanese trading houses. According to the US Embassy, his efforts to infuse a sluggish bureaucracy with his own industriousness and integrity and his campaign against corruption pushed without regard to the rank of the offender appear to have won him particular favor with the electorate. It remains to be seen how much of an impact Mahathir's actions have on ingrained practices, but many Malaysians are gratified by what they see as his genuine effort. For his part, Mahathir believes his concentration on developing national traits of honesty and hard work will further his goal of rapidly industrializing the country. [REDACTED]

25X1

Not surprisingly, Mahathir is taking the goals of the New Economic Plan (NEP) more seriously than his predecessors, who were willing to implement the plan flexibly to avoid alienating foreign economic interests. Under Mahathir, the government has purchased controlling interest in Guthrie, a British multinational with holdings in Malaysian rubber plantings, and more recently it began moving against foreign (and ethnic-Chinese) interests in the Malaysian financial community. Finance Minister Razaleigh warned insurance companies in March to submit ownership restructuring plans that satisfied the NEP's guidelines or face possible suspension of licenses. At the same time, the government is using differential corporate tax rates to reduce foreign control of the local banking community. [REDACTED]

25X1

Secret

Secret

Mahathir is also moving ahead with plans to gradually Malaysianize the country's large energy industry. Recently, Petronas, the state oil company, unilaterally adjusted the terms of production-sharing contracts that had been awarded to two foreign consortiums for exploration to give itself more participation. Petronas now will require that the foreign firms accept it as a joint partner in future contracts as a means of gaining valuable exploration experience. In a related move, Kuala Lumpur is likely to favor the exploration bids of Promet, a new privately owned Malaysian firm seeking to become the first private company to win exploration rights in Malaysia and in other countries in Southeast Asia. Mahathir has said publicly that regional oil companies should break the foreign monopoly in Southeast Asian oil exploration. [REDACTED]

25X1

Restructuring Foreign Policy

Mahathir is restructuring foreign policy, giving it a nationalistic and Eastward-looking cast which contains an anti-Western twist. He has loosened traditional Western ties in favor of ones with East Asia, which Mahathir sees as more relevant to Malaysian interests. Still, Mahathir is retaining certain constants in Malaysian foreign relations, such as ties to ASEAN, the Islamic world, and the nonaligned movement. Despite his recent difficulties with the United States, he apparently does not want a downgrading of bilateral relations. [REDACTED]

25X1

Vendetta Against the British

The cutting edge of Mahathir's new foreign policy, and one that has struck a responsive chord among Malaysians, is his persistent belaboring of the British. Despite Malaysia's attainment of independence from the United Kingdom in 1957 without the bitterness of a "liberation struggle," Mahathir blames what he sees as exploitative British colonial policies—which enlisted the cooperation of the Chinese merchant class—for the poor economic standing of ethnic Malays and for Malaysia's racial problems. Mahathir feels strongly that in recent years London has been insensitive to Malaysian interests, pointing to such British actions as joining the Common Market, terminating the Anglo-Malaysian defense treaty, and cutting back on foreign trade and investment. Another sore point, according to the US Embassy, was the United Kingdom's decision in 1980 to terminate subsidized school fees for the 16,000 Malaysian students there (the largest foreign student group in the country), tripling their education expenses. [REDACTED]

25X1

Since Mahathir became Prime Minister, several British actions have strengthened his negative view. He was furious over British-owned Dunlop Rubber selling its Malaysian shares to local Chinese business interests. Kuala Lumpur had thought Dunlop was agreeable to selling these shares to

Secret

the Malaysian Government to hold in trust for eventual transfer to Malays. The Dunlop case was soon followed by London's changing stock exchange rules to prevent an incident similar to Kuala Lumpur's takeover of Guthrie, the largest UK-based plantation company in Malaysia.² In retaliation, Mahathir imposed what has amounted to a boycott of British goods by ordering government agencies not to buy from British firms without the Prime Minister's approval, which he made clear was not likely to be granted. This could cost British firms over \$60 million in nonmilitary export sales this year. [REDACTED]

25X1

Mahathir's sustained vendetta against the United Kingdom seems at least partly rooted in his background and personal experiences. His hostility is shared by the new generation of Malaysians who feel no special tie to the United Kingdom nor any nostalgia about colonial days. Some senior Malaysian officials deplore the stridency and relentlessness of Mahathir's attacks, but there is satisfaction among the citizenry over seeing the lion's tail twisted. [REDACTED]

25X1

The flavor of the new relationship showed during last February's visit to Kuala Lumpur of then British Foreign Secretary Carrington, which produced no progress in easing bilateral problems. Although Mahathir managed to keep his discussions with the British visitor cordial, according to a British High Commission official in Kuala Lumpur, he remained unmoved and disbelieving of Carrington's assurances that the United Kingdom was sympathetic to Malaysia's concerns [REDACTED]

25X1

Mahathir's antipathy toward the British has spilled over into Malaysia's relations with other white Commonwealth nations, particularly Australia, which he declined to visit a few weeks after he came to office to attend a Commonwealth heads of government meeting. Although some senior Malaysian officials urged him to seize the opportunity to meet other Commonwealth leaders and present Malaysia's views on issues such as the United Kingdom's policy toward Commonwealth students, Mahathir decided against being seen "dancing attendance upon the Queen" and visiting a country whose racial policies he disapproves. Mahathir has not, however, let his personal feelings interfere with continuing military cooperation with Australia, including the stationing of two Australian jet squadrons in Malaysia. [REDACTED]

25X1

² A Malay Government holding company had paid two to four times the market price for 8 million shares of Guthrie, which controls 80,000 hectares of Malaysian rubber plantings. [REDACTED]

25X1

Secret

Secret

Malaysia-US: Managing the Tin Problem

Washington's proposed consultations with Kuala Lumpur on tin in early May are intended to defuse the tin issue by adopting a new approach to GSA stockpile reductions. If Kuala Lumpur is willing to accept a compromise, the arrangement could take several forms:

- *Recision of international tin sales, which GSA began in December 1981, drawing Kuala Lumpur's formal protest. This approach at the very least would permit Malaysia a face-saving solution should it decide that the tin issue has gotten out of hand.*
- *Agreement by Kuala Lumpur to purchase some of GSA's stocks in exchange for a pledge by the United States to refrain from stockpile reductions for a specified period of time. Kuala Lumpur would probably bargain hard over the terms of such an agreement, seeing it as a sign that Washington was willing to accommodate its strategic metals stockpile policy to Malaysian interests.*
- *An exchange of surplus tin held by the United States for additional stockpile supplies of another commodity, possibly Malaysian natural rubber. Kuala Lumpur may seize on such an arrangement, since one-third of the Malaysian electorate consists of smallholder rubber planters who have been hit hard by slumping world demand.*
- *A switch by GSA to stockpile sales on a long-term contract arrangement rather than in the spot market. Kuala Lumpur is likely to think that this option does not solve the basic problem—the presence of GSA in the international market—even though such an approach would make GSA sales an easier matter for Kuala Lumpur to cope with.*

Negotiations could be difficult. The Malaysians are likely to settle for nothing less than the cessation of GSA stockpile sales, while the United States is committed to sales in some form.

In the meantime, the Malaysians have succeeded in garnering support among tin exporters for a producers' alliance since the ASEAN-US dialogue in Washington last March. ASEAN economic ministers are to meet in Kuala Lumpur in mid-May to decide what form the proposed alliance will take. Furthermore, the recent inability of the International Tin Council to defend international prices in the face of last February's sharp drop has provoked other exporters, who continue to have the Malaysian approach to choose from as an alternative to the Sixth International Tin Agreement.

25X1

Secret

Secret

Jousting With the United States

Mahathir appears to accept the importance of the US security connection, and he admires the United States for its strong work ethic and free enterprise system. Moreover, he has close personal ties, which he values, with several American families whose children he has hosted under student exchange programs, and his daughters have lived in the United States under similar sponsorship. [redacted]

25X6

[redacted] early in his term he said that as long as Malaysia remains militarily vulnerable, substantially dependent on US economic ties, and technically backward, it could never afford to turn its back on the United States. [redacted]

25X6

25X1

Since early 1982, however, Malaysia's increasingly strident objections to US sales on the international market of tin from the GSA stockpile have threatened to sour all aspects of US-Malaysian relations. Malaysia is the world's largest producer, accounting for 25 percent of global output, and Mahathir blames the US tin sales for accelerating the slump in international tin prices that began last February. Kuala Lumpur's anger had been building since the US decision last fall not to join the Sixth International Tin Agreement, which would defend international tin prices beginning in July 1982. Mahathir felt that US nonparticipation doomed the new tin agreement's chances of ratification, thus allowing the price of tin to be set in a depressed international market. [redacted]

25X1

The contentious US-ASEAN dialogue in Washington last March left him convinced of US indifference to Malaysia's vital interest in tin. Mahathir subsequently told the US Ambassador that he had instructed Malaysian officials not to initiate further talks on tin with US officials, believing that discussions would be pointless. Nevertheless, Mahathir has not closed the door completely to a continuing dialogue with Washington. He has reacted cautiously to recent US overtures for discussions early next month in Washington concerning GSA's tin stockpile disposal program. According to the US Embassy, he is pleased that the United States is willing to consider modifying GSA's sales procedures but wants details of the proposal before committing Malaysia to bilateral discussions. [redacted]

25X1

In any event, there is a large reservoir of good will toward the United States that could tide Washington through the present difficulties with Mahathir. US technology has been a strong drawing card for 12,000 Malaysian students to study here, and the United States seems destined to supplant the United Kingdom as the foreign country with the largest Malaysian student population. In turn, the US economic stake in Malaysia

Secret

Secret

has grown rapidly and now stands at \$1.8 billion, with an investment of \$1 billion in Malaysia's oil industry and equity holdings of \$600 million in the country's electronics industry. The US is also a major supplier of military equipment to Malaysia. In spite of the tin controversy, Kuala Lumpur early this month decided to buy 16 F-5 fighter aircraft worth over \$100 million. [REDACTED]

25X1

Looking Ahead

The election mandate will strengthen the directions in domestic and foreign policy that Mahathir has already established in his brief tenure in office. He will push ahead with his economic development programs despite large budget and foreign trade deficits caused by the global recession. This year's budget, for example, calls for a 17-percent increase in outlays, propelled by \$6.4 billion in new spending on development projects. Mahathir appears dedicated to developing a capital-intensive industrial sector and large-scale infrastructure projects, even though some of his advisers are concerned that Malaysia's planned \$14-billion heavy industries program for 1981-85 will severely strain the economy's financial resources. [REDACTED]

25X1

Mahathir will also continue to push ahead with the Eastward look he has imparted to Malaysian foreign policy, focusing on Japan and South Korea. He feels this new direction would correct the present lopsidedness in favor of the West. Mahathir apparently is convinced that development strategies in these two countries are more relevant to Malaysia than traditional Western models and that emulation of their work ethic will further his goal of a more productive, industry-based Malaysian economy. [REDACTED]

25X1

Mahathir's strong convictions suggest that he will be the most difficult ASEAN leader for Washington to deal with over the next several years. The United States can expect continued sharp criticism of any of its commodity policies Mahathir considers inimical to Malaysian interests. Although this may lead to rough periods, the important security relationship and growing economic ties will provide a hedge against bilateral relations going the way of Malaysian-British relations. [REDACTED]

25X1

Secret

Secret

Approved For Release 2008/07/10 : CIA-RDP83B00227R000100160004-8

Secret

Approved For Release 2008/07/10 : CIA-RDP83B00227R000100160004-8